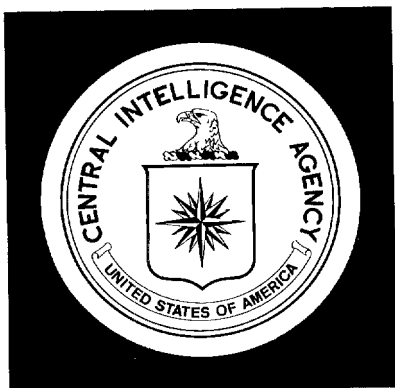


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DIRECTORATE OF  
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EGYPT: President Sadat has called on Arabs to close ranks and face up to recent Israeli actions that he claims are supported by the US.

In a speech commemorating the second anniversary of Nasir's death, Sadat placed the blame for the recent Israeli incursions on the Arabs themselves. He said the Arabs continue to protect profitable US interests in the Middle East while Washington encourages Israeli attacks on the Palestinians. Sadat reminded his audience that the Arabs possessed tremendous resources and called for a deliberate search for a unified Arab stand that would convey this strength to the US.

There have been a number of calls for action against US interests in the Egyptian media lately. Cairo probably hopes that threats against these interests will somehow serve to persuade the US to put pressure on Tel Aviv. Efforts to coordinate anti-US measures in the past have usually run afoul of the key interests of Arab states--particularly the oil producers--and new moves in that direction will face similar difficulties.

During his address Sadat was uncharacteristically effusive in his praise of Lebanon and President Franjiah. Sadat appealed to the Arabs to avoid criticism of Beirut's recent actions, presumably its attempts to control the fedayeen, probably in part as an attempt to avoid further Arab infighting that would detract from his calls for solidarity.

In another effort to solidify Arab ranks, Sadat called for the formation of a Palestinian "entity," and said that Cairo "will welcome and recognize this entity when the Palestinian people and the resistance take the steps needed for the emergence of their provisional government." [redacted]

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USSR-EGYPT: The Soviets and Egyptians are moving toward a new round of high-level talks.

A Soviet Foreign Ministry spokesman told US Embassy officials on 27 September that Moscow has finally agreed to a summit meeting with President Sadat. In a speech yesterday Sadat gave no indication of a summit and claimed that he was still awaiting a reply to his last letter to Brezhnev. The Soviet official, however, said that one of the Soviet leaders will meet with the Egyptian president in about two months, "probably in Cairo." In reply to Sadat's request for a summit last month, the Soviets indicated that lower level meetings should be held first. This stipulation is apparently to be fulfilled next week when Egyptian Deputy Foreign Minister Hatim visits Moscow. According to the Soviet official, Hatim will discuss bilateral relations, including arrangements for the summit, and will open an Egyptian cultural exhibit.

As a first step toward more normal relations, the Egyptian ambassador returned to Moscow on 27 September. Soviet Ambassador Vinogradov reportedly will return to Cairo about 10 October. Both had been recalled for consultations following the announcement of the expulsion of the Soviet advisers.

Moscow's decision to go ahead with the summit is probably related in part to the decision of the Egyptian leaders to tone down press criticism of Soviet Middle Eastern policies--a development which the Foreign Ministry official noted with satisfaction. The Soviets had made clear both publicly and privately their unhappiness over these attacks and were unwilling to agree to high-level talks while the attacks were going on.

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JAPAN: Tokyo is seriously concerned about the sudden buildup of pressures for another yen revaluation.

The trend of discussions at the current meeting of the International Monetary Fund (IMF) and recent heavy dollar buying by the Japanese central bank to maintain the yen-dollar exchange rate have contributed to Tokyo's uneasiness. Tokyo had hoped for an uneventful IMF meeting and was surprised by the strong US proposals. In addition, the generally positive reaction to the US proposals in West European countries, which have begun to take the brunt of Japan's export growth, has left Japan in a relatively isolated position. During the past week the Bank of Japan increased its purchases of dollars to a daily level of \$60 to \$100 million, bringing total purchases this month to more than \$600 million.

Although most Japanese officials believe that some additional moves are required to relieve pressure for a yen revaluation, bureaucratic infighting has prevented action. The Ministry of International Trade and Industry (MITI) wants to avoid revaluation at all costs, while the Ministry of Finance believes it is inevitable but should be put off until next year. In the short run, both ministries believe some form of export controls is needed, but MITI favors weaker and more flexible controls. After Tanaka's return from China, there is a strong possibility that a decision will be made on how Japan intends to correct its trade balance. [REDACTED]

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NATO-SALT: The allies have begun to focus on the potential impact on their interests of the upcoming round of strategic arms limitations talks. Citing Dr. Kissinger's remark that the second round of SALT may move even faster than the first, the West Germans have echoed NATO Secretary-General Luns' call for early consultations in the alliance. Bonn has also requested that the US present in advance a written paper describing its preliminary goals for SALT II. The allies are particularly concerned over the strong possibility that Moscow will revive the issue of forward-based nuclear systems in Europe during SALT II, and that the subject may also come up during talks on mutual and balanced force reductions.

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CHINA-AUSTRALIA: The sale of one million tons of Australian wheat to China for delivery in 1973 is the first such contract since December 1969. The sale will encourage Australia's Liberal-Country coalition government which faces elections before the end of the year and whose agricultural supporters have been concerned over the loss of the China market. Peking stopped buying from Australia for two major reasons: Canberra's refusal to recognize Peking and reduced import requirements due to improvements in China's domestic food supplies. The present turnabout in the Chinese position apparently reflects concern over the unsettled world wheat market and the possibility that Canada, the preferred source of imports, may be unable to fulfill all of China's requirements in 1973. China's imports in recent years have averaged about four million tons per year.

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MOROCCO: King Hassan has taken a first step toward broadening participation in his government. On 26 September he reopened contact with leaders of political parties; dialogue with the parties had been broken off by the King last March. The politicians were asked to declare their intentions on the question of participation in the government and forthcoming parliamentary elections. Although none of the leaders immediately responded to the King's overture, it has led to renewed contacts between the two components of the opposition National Front coalition. The coalition virtually ceased to exist when the King ended consultations with it last spring. [REDACTED]

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EAST ASIA - EC: East Asia's four major textile producers--Japan, Hong Kong, Taiwan, and South Korea--are facing the possibility of increased restrictions on their non-cotton textile exports to the EC. Discussions between these countries and the EC Commission, scheduled to begin during the next few weeks, are aimed at consolidating several existing individual agreements and extending them to cover all four countries, partially in reaction to a report submitted to it by the British Government in August. At the same time, the Commission has proposed liberalization of textile imports from other countries. The proposed revisions with the East Asian countries are undoubtedly designed to prevent a wave of imports resulting from quotas levied on these countries last year by the US. Except for Hong Kong, however, these countries now sell only a small portion of their total textile production to the EC, and the new restrictions will not seriously damage their overall export performance. [REDACTED]

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